Canadian Export Gas & Oil Ltd.

ANNUAL REPORT • April 30, 1973

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DIRECTORS	AUGUST F. BECK, *Calgary* *President and General Manager of the Company*
	F. R. BURTON, *Toronto* *President and a Director of Alminex Limited*
	JOHN DRYBROUGH, *Winnipeg* *Vice-Chairman of the Board of Newmont Mining Corporation of Canada Limited*
	FRANCIS KERNAN, *New York* *Director and Consultant of White, Weld & Co. Incorporated*
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	PLATO MALOZEMOFF, *New York* *Chairman of the Board, President and a Director of Newmont Mining Corporation*
	MILTON H. MANDEL, *New York* *An Attorney-at-Law*
	FRANZ SCHNEIDER, *New York* *Financial Consultant*
OFFICERS	AUGUST F. BECK, *President and General Manager*
	PAUL C. EVANS, *Vice-President – Production*
	W. P. HANCOCK, *Vice-President – Exploration*
	DEREK N. WALKER, *Secretary-Treasurer*
	JOHN P. FITZ-GIBBON, *Assistant Secretary*
HEAD OFFICE	736 - 8TH AVENUE S.W., CALGARY, ALBERTA T2P 1H4
SUBSIDIARIES	CANADIAN EXPORT GAS & OIL (U.K.) LIMITED
	CANEX GAS LTD. *(Charter surrendered on September 27, 1972)*
	CEGO MINERALS LTD. *(Liquidated on April 27, 1973)*
SHARES LISTED	AMERICAN STOCK EXCHANGE, *New York*
	MIDWEST STOCK EXCHANGE, *Chicago*
	THE TORONTO STOCK EXCHANGE
TRANSFER AGENTS	CROWN TRUST COMPANY, *Calgary and Toronto*
	HARRIS TRUST AND SAVINGS BANK, *Chicago*
	BANKERS TRUST COMPANY, *New York*
REGISTRARS	CROWN TRUST COMPANY, *Calgary and Toronto* AMERICAN NATIONAL BANK AND TRUST COMPANY, *Chicago* THE BANK OF NEW YORK, *New York*
AUDITORS	PEAT, MARWICK, MITCHELL & CO., *Calgary*

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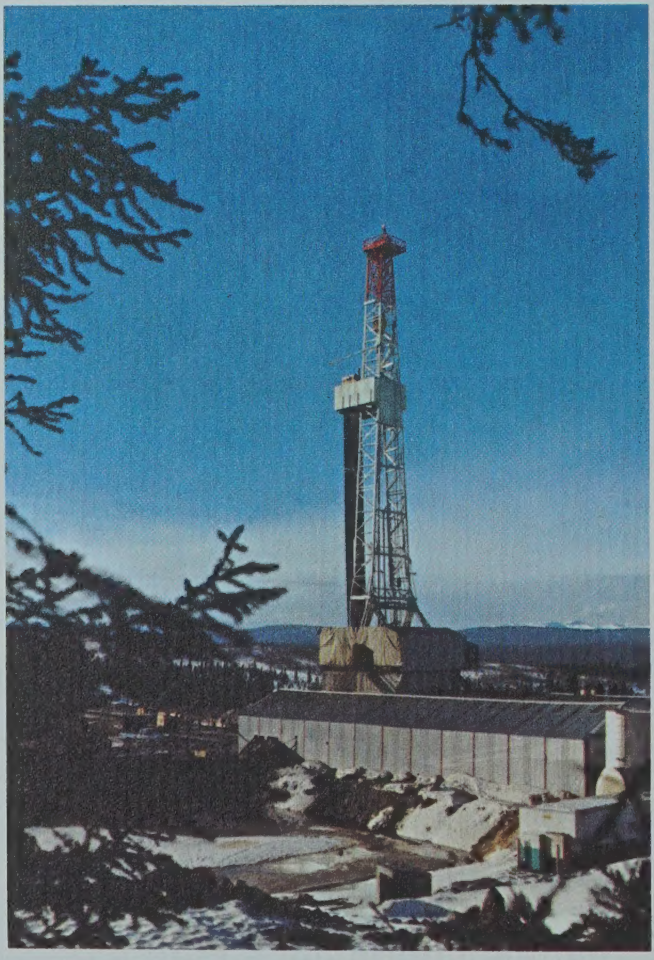
Highlights '73

PRODUCTION (Net after royalties):		1972-73	1971-72
Oil and Gas Liquids – Annual	Barrels	591,184	569,483
– Daily Average	Barrels	1,620	1,560
Natural Gas – Annual	Billion Cubic Feet	8.507	9.670
– Daily Average	Million Cubic Feet	23	26
Sulphur – Annual	Long Tons	17,539	20,616
– Daily Average	Long Tons	48	56
EARNINGS:			
Gross operating income		$3,314,000	$3,496,000
Cash flow from operations		$2,045,000	$2,108,000
Per Share		25¢	26¢
Net earnings before deferred income taxes and extraordinary items		$ 710,000	$ 424,000
Per Share		9¢	5¢
Net earnings before extraordinary items		$ 599,000	$ 424,000
Per Share		7¢	5¢
Net earnings		$ 645,000	$ 586,000
Per Share		8¢	7¢
CAPITAL INVESTMENT:			
Exploration		$1,527,000	$1,015,000
Development		$ 294,000	$ 247,000
WORKING CAPITAL		$1,896,000	$ 516,000
LAND HOLDINGS:			
Canadian – Gross acres		5,323,000	5,525,000
– Net acres		2,494,000	2,486,000
Foreign – Gross acres		7,026,000	285,000
– Net acres		1,702,000	29,000

ANNUAL MEETING

The 1973 Annual General Meeting of shareholders will be held on July 19, 1973, at 2:00 P.M. at the Company's Head Office, 736 - 8th Avenue S.W., Calgary, Alberta.

President's Report to the Shareholders



CEGO is an 8% participant in a deep test at Nose Creek, Alberta. Objective is 17,000 to 18,000 feet.

HIGHLIGHTS OF THE PAST YEAR INCLUDE:

- Signing of a new gas sale agreement on May 31, 1973 which will significantly increase annual revenue.
- Elimination of all long term debt.
- Acquisition of a 25% interest in a 6.6 million acre concession in Kenya (see map on page 11).
- Acquisition of a 10% interest in 81,000 acres onshore and a 25% interest in applications for 170,000 offshore acres all in southern Italy (see map on page 12).
- Acquisition of a 100% interest in 85,000 acres offshore in Greeley Fiord off Ellesmere Island in the Canadian Arctic (See map on page 9).

FINANCIAL

Gross income of $3,314,000 was 5% less than last year's $3,496,000 and cash flow was $2,045,000 compared with $2,108,000.

Net earnings before deferred income taxes and extraordinary items, were 67% higher at $710,000. Net earnings after deferred income taxes of $111,000 and extraordinary items were $645,000 compared with $586,000 last year. The extraordinary items are explained in the notes to the financial statements.

The Company liquidated its remaining bank loans in December and is now free of all long term debt. Working capital of $1,896,000, over 3½ times greater than at the end of last year, places the Company in a favourable financial position.

PRODUCTION

Production of crude oil and other liquids increased 4% during the year. Operating income from this source increased just over 5%. Between November 1972 and May

1st, 1973 there have been various increases in the prices for crude oil totalling 55¢ per barrel and 70¢ per barrel for condensate. The full impact of these increases will not be realized until the fiscal year ending April 30, 1974. Assessment of higher royalties by the provincial governments will decrease the full benefit of these higher prices. However, this could represent a revenue increase of approximately $350,000 per year to the Company, on the basis of present production.

Production of natural gas was down 12% last year. This decrease as explained elsewhere in this report, was due in large part to special circumstances. However, on May 31, 1973 existing gas sale contracts covering about twelve million cubic feet per day, being approximately 50% of the Company's natural gas production, were amended by new agreements, to take effect November 1, 1973.

Under the new agreements the price paid to CEGO will be increased to 26¢ per thousand cubic feet with an escalation of 1¢ per thousand cubic feet per year. This price compares with an average now in effect of approximately 16¢ per thousand cubic feet and ¼¢ escalation. This could represent an increase in annual income in a full year of approximately $400,000 after payment of royalties. The agreements also provide for another review of the price in 1974 and every second year thereafter for the life of the contract.

EXPLORATION

Higher prices for crude oil, condensate and natural gas have helped to maintain a high level of activity and competition in the older traditional exploration areas of Western Canada, particularly Alberta. Most of the activity has been directed toward the low potential shallow plains area – the higher prices bringing many gas and oil accumulations within economic reach. There remains considerable exploration to be done in the deeper plains and Foothills belts – high risk but higher potential areas.

CEGO is attempting to maintain a level of activity in these areas of Alberta as well as Northeast B.C. and the Northwest Territories. The major part of Company drilling in the past year has been in the shallow plains where three gas discoveries and two oil discoveries were made. A deep Devonian test is currently underway in the Foothills belt.

Geophysical studies were carried out in western Alberta, Northeast B.C., the Northwest Territories mainland. Seismic studies of the Beaufort Sea properties were continued last year. These areas as well as Hudson Bay and offshore Labrador will receive attention in the coming year. Seismic surveys were completed over all five of the North Sea blocks in which the Company owns 10% interest. At least two blocks are at a stage where drilling locations can be selected as soon as rigs are available.

A substantial increase in the Company's land position has been accomplished this past year mainly through acquisition in foreign areas. The largest addition has been a 25% interest in a 6.6 million acre oil prospecting lease in Kenya. The Company also has 10% in two onshore blocks totalling 81,000 acres in Italy. The Company will continue its aggressive approach in other geologically favorable basins of the world and is currently conducting surveys and studying situations in South America, the Caribbean area and West Africa.

GENERAL

The significant development over the past year has been the sudden realization by governments and the public of the critical importance to the economy of oil and gas and the increase in demand for hydrocarbons all over the world. The publicity attendant on the acute impending shortage of gas and oil in the U.S. is finally bringing realization to both government and the public of a condition which the industry has been endeavouring to make the public aware for many years.

There is concern on the part of many Canadians that the construction of a gas pipeline from the Mackenzie Delta to the mid-western U.S. will be primarily to the benefit of U.S. consumers.

It must be realized however that Canadians, especially Eastern Canadians, will require Mackenzie gas in the not too distant future. A gas line designed for exclusive use of Eastern Canada cannot be economically viable. But if the same pipeline can bring gas to the U.S. mid-western market, the project could be viable and the cost of gas to the Eastern Canadian consumer would be minimized.

This project would also be of benefit to many Canadian industries and workers, particularly if it is Canadian controlled. Your company's management is therefore of the opinion that it must be in Canada's best interest to proceed with the construction of the pipeline from the Mackenzie Delta with a minimum of delay while the opportunity is still available.

The Management again wishes to express its appreciation to its employees and shareholders for their loyalty and interest, without which the Company could not continue to develop.

On behalf of the Board

A. F. Beck

A. F. BECK, President

June 7, 1973

Production

CEGO's oil and gas liquid production was 591,000 barrels compared to 569,000 barrels the previous year. This was an increase of 4% and is a record production for the Company.

Net gas production for the 1972-73 fiscal year was 8.5 billion cubic feet compared to 9.67 billion cubic feet last year – a decline of 12%. This decrease was expected, as production the previous year had been unusually high, when special circumstances raised CEGO's participation to 8.5% in the Strachan Field. In 1972-73 the production reverted to the 6.25% that the Company actually owns. Gas production was also affected by a temporary shutdown of the Bindloss compressor stations for a period of one month.

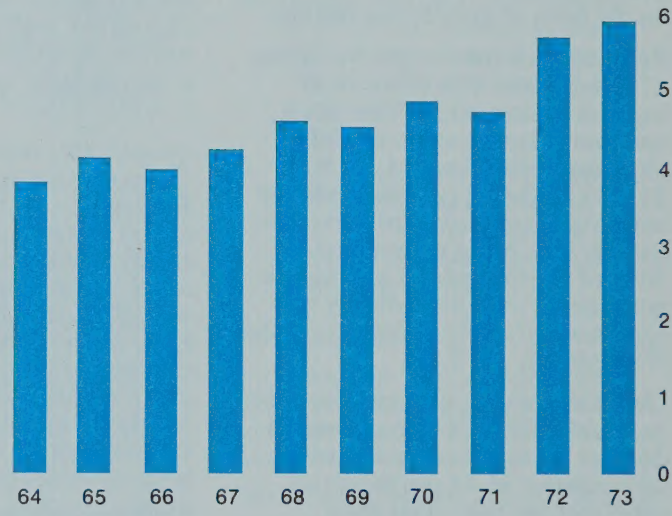
The expansion of the liquid petroleum gas recovery unit at the Strachan Plant has been completed.

Planning for unitization of the Meekwap oil field, mentioned in last year's annual report, is continuing. Delays have been encountered due to extended negotiations between various producers and in acquiring sufficient water supply to implement the secondary recovery project. It is expected however, that this plan should be in operation by the end of 1973.

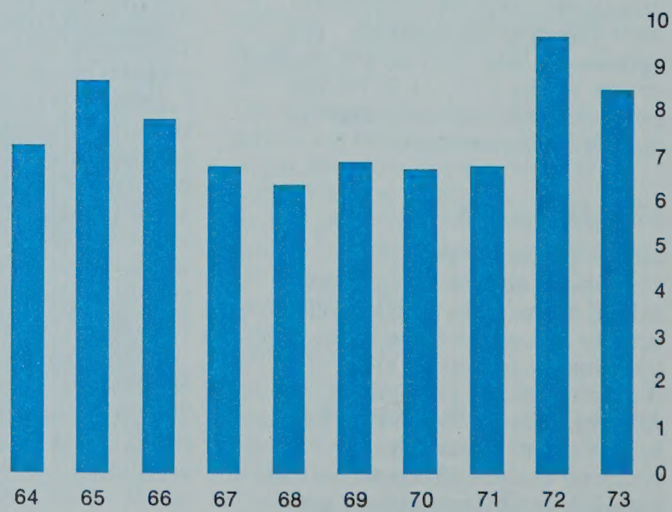
The Company purchased a 1% overriding royalty in various oil producing properties in British Columbia which it is estimated will bring an income of approximately $25,000 per year.

The signing of a contract covering CEGO's new gas reserves in the Provost area is being delayed until discussions on gas prices now underway have been concluded.

NET OIL & GAS LIQUIDS PRODUCTION
HUNDREDS OF THOUSANDS OF BARRELS



NET GAS PRODUCTION
BILLIONS OF CUBIC FEET



Net Oil & Gas Liquids Production by Fields
(After Royalties)

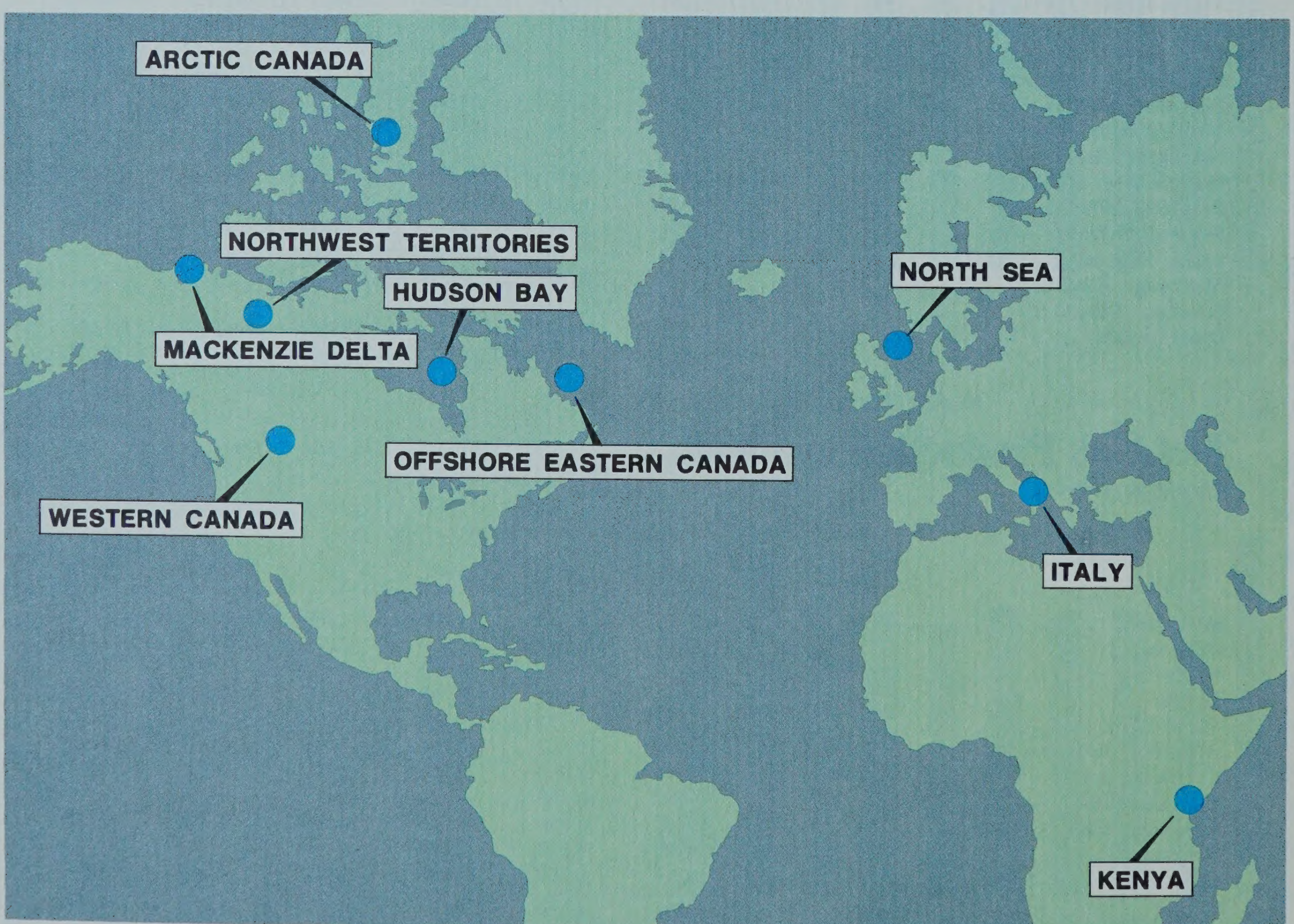
	(Net Barrels)					
	1973	1972	1971	1970	1969	1968
Virden-Roselea, Man.	150,838	152,225	163,147	172,152	161,962	148,192
Florence-Carnduff, Sask.	40,365	49,727	58,381	64,580	71,352	79,479
Swan Hills, Alberta	80,383	81,342	84,359	88,088	70,140	57,734
Big Valley, Alberta	74,680	49,255	41,975	37,722	30,681	35,704
Crossfield, Alberta	21,887	21,301	20,868	22,025	30,635	37,947
Virginia Hills, Alberta	20,245	21,124	23,899	24,294	22,753	17,823
Northgate, Sask.	7,333	8,314	8,638	10,926	14,923	22,536
Manyberries, Alberta	10,850	7,591	7,049	9,754	10,798	12,483
Browning-Willmar, Sask.	2,963	5,029	6,367	5,705	4,308	11,211
Swalwell, Alberta	2,503	2,894	2,895	2,080	1,710	2,295
Zama, Alberta	11,850	7,201	11,763	11,581	—	—
Meekwap, Alberta	34,632	29,095	6,435	—	—	—
Strachan, Alberta	123,665	124,316	27,795	—	—	—
Other Areas	8,990	10,069	16,697	37,285	21,467	17,625
	591,184	569,483	480,268	486,192	440,729	443,029

Net Gas Production by Fields
(After Royalties)

	(Billion Cubic Feet)					
	1973	1972	1971	1970	1969	1968
Steveville	0.955	1.135	1.320	1.690	2.065	2.115
Bindloss	1.624	1.965	1.923	2.157	1.731	1.706
Hilda	1.325	1.491	1.533	1.644	1.703	1.395
Sedalia	0.410	0.417	0.393	0.397	0.392	0.348
Wood River	0.120	0.131	0.173	0.244	0.348	0.276
Atlee-Buffalo-Jenner	0.101	0.107	0.103	0.199	0.287	0.289
Countess-Duchess	0.111	0.060	0.085	0.085	0.104	0.109
East Crossfield	0.095	0.105	0.110	0.098	0.070	0.019
Crossfield Turner Valley	0.048	0.050	0.045	0.044	0.039	0.038
Strachan	3.631	4.149	1.014	—	—	—
Other Areas	0.087	0.060	0.105	0.221	0.207	0.267
	8.507	9.670	6.804	6.779	6.946	6.562

Exploration and Land

CEGO WORLD ACTIVITIES



Alberta

During the past year, 24 exploratory wells were drilled, eleven of which were drilled under farmout or option agreements at no cash cost to the Company.

CEGO has a 50% interest in a Viking gas discovery in the Provost Area which extended the proven productive area and earned the Company a net 50% interest in 5,120 acres of leased lands.

In the Willow Creek Area, two potential gas wells were completed by another operator on acreage farmed out by CEGO and participants.

In the Twining Area a farmee completed a potential Mississippian oil producer on Company acreage. The Company took a 10% participation in additional acreage acquired in this area and the first well on this land is planned for early drilling.

In the Sunset Area CEGO participated to an extent of 50% in drilling a deep Devonian well. On drill stem tests and subsequent production tests, this well indicated a commercial oil discovery. However, this production did not hold up and the well has been suspended. A stepout to the northeast failed to find a productive zone and further drilling in the area is not immediately contemplated.

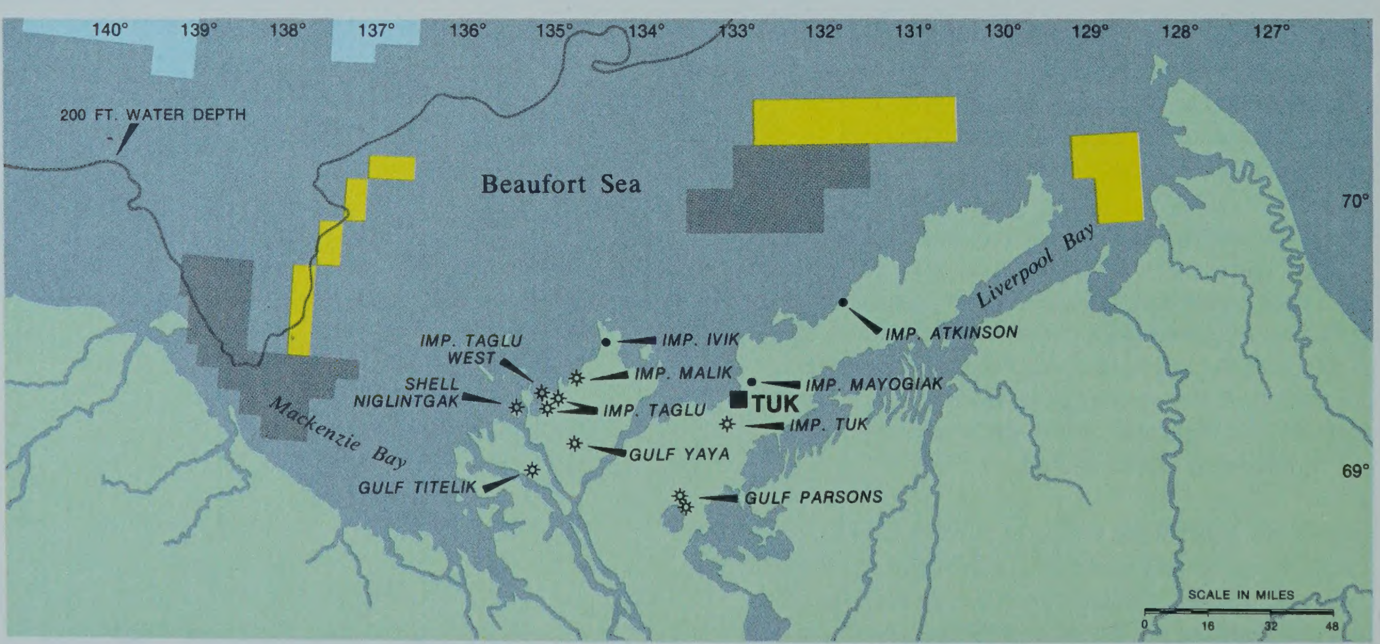
In western Alberta the Union et al Nose Creek 13-32-64-12 W 6M was spudded November 16, 1972. This well will test a seismic structure in the Foothills belt at a depth of 17,000 to 18,000 feet. As of June 7, 1973 this well was drilling at a depth of 14,549 feet and objective horizons are expected to be reached within the next three to four months.

Mackenzie Delta

The Mackenzie Delta Area continues to dominate the exploration scene in Canada. There is now evidence that the Mackenzie Delta has gas reserves of an estimated 15 trillion cubic feet. Based on seismic indications, the offshore delta area where CEGO has 50% in 220,000 acres, appears to offer an equally great potential.

Of particular interest is the work bonus acreage adjacent to the CEGO holdings. Companies holding the work bonus acreage as a group are committed to exploratory expenditures in excess of $15 million. Such expenditure will most certainly involve drilling and to this end a great deal of research has been done by government and industry insofar as drilling techniques and related problems are concerned.

During the past summer an additional 200 miles of seismic was carried out on certain of the Company's Mackenzie Delta permits. A further 200 mile program during the summer of 1973 should provide sufficient detail over the Western (delta) blocks which could lead to eventual drilling. Another seismic program of 100 miles is scheduled over the centre blocks north of the Atkinson well.



MACKENZIE DELTA AREA

CEGO Acreage Gross 824,638 Net 412,319

• Oil Well ☼ Gas Well

Acreage under permit to others

Work Bonus Acreage held by other companies


This seismic ship conducted surveys for CEGO in the Mackenzie Delta area.

FOSHEIM AREA-ARCTIC ISLANDS

CEGO Acreage 85,516 (100%) Panarctic Interest Acreage
Oil Show Abandoned

Hudson Bay

CEGO will be participating in an extensive marine program in this area during the coming summer. This program will provide the Company with 1,500 miles of seismic control, part of which will be over its joint acreage.

CEGO has a 50% interest in two million acres. Drilling activity had been scheduled in the Bay this coming summer on acreage owned by another group. However, a drilling rig is not available and the project has been postponed until the summer of 1974.

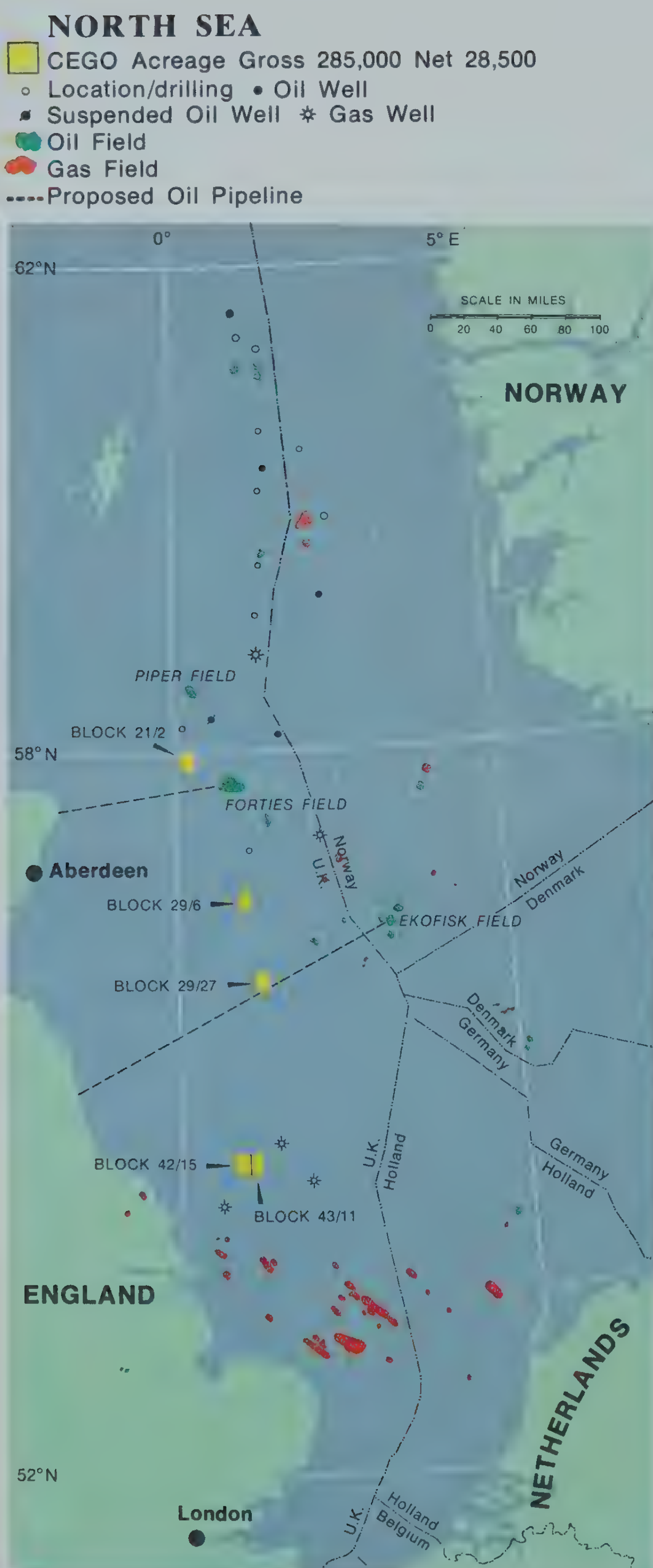
Northwest Territories

In the Carcajou Area, northwest of Norman Wells, N.W.T. weather conditions prevented completion of our proposed seismic program during the winter season. Attempts will be made during the early summer to conduct marine seismic where the Mackenzie River crosses the acreage.

Some additional seismic work was obtained and correlated with previous work and geologic studies in the Great Bear Lake Area. Results of this work have not been particularly encouraging and nothing further is planned at the moment.

Arctic Islands

Two permits totalling some 85,000 acres were acquired in the Greeley Fiord off Ellesmere Island. Panarctic recently completed the drilling of a dry hole onshore just five miles south of these permits. This well is a follow-up to previous Panarctic drilling in the Fosheim Peninsula Area, one of the tests being Panarctic Romulus which obtained oil and gas shows.



North Sea

Approximately 650 miles of seismic line were run over two production licences consisting of five Company interest blocks in the United Kingdom sector of the North Sea. Drilling locations have been selected on two of the blocks for drilling as soon as rigs become available probably in 1973 or 1974. A third well, completing our obligations on these blocks, will be located dependent upon results of the initial wells and other industry results in the general area.

Production Licence P. 137

This licence consisting of Blocks 42/15 and 43/11 in the southern portion of the North Sea will probably be the first to be evaluated through drilling. The area is north of the presently producing gas fields and west of some wells that established gas production but have not as yet been followed up by development. A location on Block 43/11 will test the section to a depth of approximately 4,800 feet on an indicated seismic structure covering 26,000 acres.

Production Licence P. 244

Three widely spaced blocks, 21/2, 29/6 and 29/27 constitute this licence. Regionally the blocks lie in the western part of the oil proven northern North Sea Sedimentary Basin. Block 21/2, the northernmost, is located in what is termed the Forties Embayment, some 20 miles northwest of British Petroleum's Forties major oil field. Occidental has completed two confirmatory wells in Block 15/17, 30 miles north of CEGO's 21/2 indicating the Piper discovery to be a major find. Total Petroleum has just announced the abandonment of a well in the northwest corner of Block 21/3 immediately east of your Company's 21/2 block. However, present indications are that this

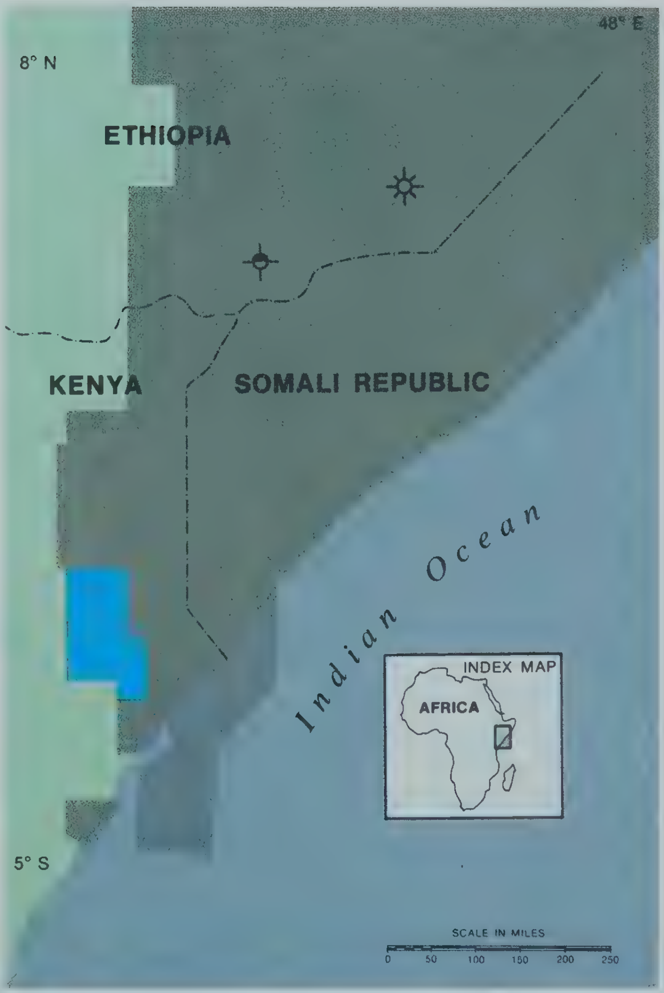
well is not on the same structure which is indicated in 21/2.

A seismic anomaly covering some 6,000 acres in Block 21/2 will be tested with a deep well when an offshore rig becomes available. Seismic anomalies have been mapped on the other two blocks in this licence. Selection of the second obligatory well on the licence will await results of the first test and other developments in the general area.

In addition to activities related to CEGO's current U.K. interests, seismic and related information in other portions of the North Sea are being acquired. These efforts will hopefully lead toward participation in future acreage awards in this general area.

Kenya

Award of a 6.6 million acre oil prospecting licence was made March 1, 1973 to a group in which CEGO has 25%. A rework of available seismic data is currently underway and a geological study of the area is planned.



KENYA

CEGO Acreage Gross 6,660,000 Net 1,665,000

Gas Well ⌖ Oil Show

Licences Issued to Other Companies

Italy

Award of two onshore blocks totalling 81,100 acres has been made to a group in which CEGO has a 10% interest. The blocks are in the Gulf of Taranto area north and northwest of the offshore Luna gas field discovered in late 1971. Società Italiana Resine is operator of the group. An initial seismic program of some 80 miles has been completed on these blocks and will be evaluated before further work is undertaken.

Applications were made for seven offshore blocks along the Tyrrhenian coast south of Naples. Two of the seven were awarded to a subsequent applicant. It is anticipated that certain or all five of the remaining permits will be granted to our group. Total acreage in the five permits is 169,000 acres and CEGO interest would be 25%.

Land Holdings

April 30, 1973

CANADIAN	Gross Acres	Net Acres
Alberta	770,310	279,248
Saskatchewan	6,651	4,347
Manitoba	1,370	1,370
British Columbia	97,384	67,928
East Coast	732,901	366,451
Northwest Territories	752,695	250,898
Mackenzie Delta (Beaufort Sea)	824,638	412,319
Arctic Islands	85,516	85,516
Hudson Bay	2,052,430	1,026,215
TOTAL CANADIAN	5,323,895	2,494,292
FOREIGN		
Italy	81,100	8,110
North Sea	285,000	28,500
Kenya	6,660,000	1,665,000
TOTAL FOREIGN	7,026,100	1,701,610
GRAND TOTAL	12,349,995	4,195,902

ROYALTY AND MINERAL INTERESTS	
Alberta	40,951
British Columbia	51,487
Saskatchewan	139,651
Manitoba	8,173
TOTAL ROYALTY AND MINERAL INTERESTS	240,262

Consolidated Statement of Earnings

Year ended April 30, 1973

		1973	1972
OPERATING INCOME:			
Crude oil and gas liquids sales		$ 1,660,000	$1,578,000
Natural gas sales		1,466,000	1,710,000
Royalty income		177,000	188,000
Sulphur sales		11,000	20,000
GROSS INCOME		3,314,000	3,496,000
Less production expenses		722,000	711,000
NET PRODUCTION INCOME		2,592,000	2,785,000
Deduct administrative and general expenses		373,000	342,000
OPERATING PROFIT BEFORE THE FOLLOWING		2,219,000	2,443,000
OTHER CHARGES, net:			
Share transfer and other shareholder expenses	$ 65,000		70,000
Acreage rentals on non-producing properties	148,000		206,000
Interest on loans	35,000		80,000
Dry holes and abandoned properties	693,000		964,000
	941,000		1,320,000
Deduct miscellaneous income	74,000		21,000
		867,000	1,299,000
EARNINGS BEFORE PROVISIONS		1,352,000	1,144,000
PROVISIONS:			
Depletion and amortization	408,000		489,000
Depreciation	234,000		231,000
		642,000	720,000
NET EARNINGS BEFORE INCOME TAXES		710,000	424,000
INCOME TAXES, DEFERRED (Note 4)		111,000	—
NET EARNINGS BEFORE EXTRAORDINARY ITEMS		599,000	424,000
EXTRAORDINARY ITEMS (Note 5):			
Gain on sale of property	1,595,000		162,000
Unamortized exploration and preproduction expenditures of a former subsidiary written off	1,549,000		—
		46,000	162,000
NET EARNINGS		$ 645,000	$ 586,000
EARNINGS PER SHARE (Note 6):			
Earnings before extraordinary items		$.07	$.05
Net earnings		$.08	$.07

Consolidated Statement of Retained Earnings

Year ended April 30, 1973

	1973	1972
RETAINED EARNINGS, at beginning of year	$ 6,501,000	$ 5,915,000
Net earnings for year	645,000	586,000
RETAINED EARNINGS, at end of year	$ 7,146,000	$ 6,501,000

See accompanying notes

Consolidated Balance Sheet

April 30, 1973

Assets

		1973	1972
CURRENT ASSETS:			
Cash and deposit receipts		$ 831,000	$ 650,000
Short term investments, at cost		500,000	—
Marketable securities (quoted market value – $99,000; 1972 – $83,000)		51,000	41,000
Accounts receivable		954,000	831,000
Inventory of supplies and equipment, at cost		49,000	37,000
TOTAL CURRENT ASSETS		2,385,000	1,559,000
REFUNDABLE DEPOSITS AND INVESTMENTS, at cost (Note 1)		450,000	467,000
FIXED ASSETS, at cost:			
Productive properties and equipment	$16,021,000		15,379,000
Other assets	134,000		130,000
	16,155,000		15,509,000
Less accumulated depreciation, depletion and amortization	7,037,000		6,576,000
	9,118,000		8,933,000
Undeveloped properties	3,589,000		3,347,000
	12,707,000		12,280,000
Exploration and preproduction expenditures (unamortized) (Note 5)	—		1,549,000
		12,707,000	13,829,000
		$15,542,000	$15,855,000

Liabilities

		1973	1972
CURRENT LIABILITIES:			
Accounts payable and accrued expenses		$ 489,000	$ 323,000
Bank loans due within one year (secured)		—	720,000
TOTAL CURRENT LIABILITIES		489,000	1,043,000
BANK LOANS, net of current portion (secured)		—	515,000
DEFERRED INCOME TAXES (Note 4)		111,000	—
SHAREHOLDERS' EQUITY:			
Capital stock (Note 2):			
Shares of a par value of 16⅔ cents each Authorized 12,000,000 shares:			
Issued 8,168,577 shares	$ 1,362,000		1,362,000
Contributed surplus	6,434,000		6,434,000
	7,796,000		7,796,000
Retained earnings	7,146,000		6,501,000
		14,942,000	14,297,000
		$15,542,000	$15,855,000

Approved on behalf of the Board:

August F. Beck, Director

John Drybrough, Director

See accompanying notes

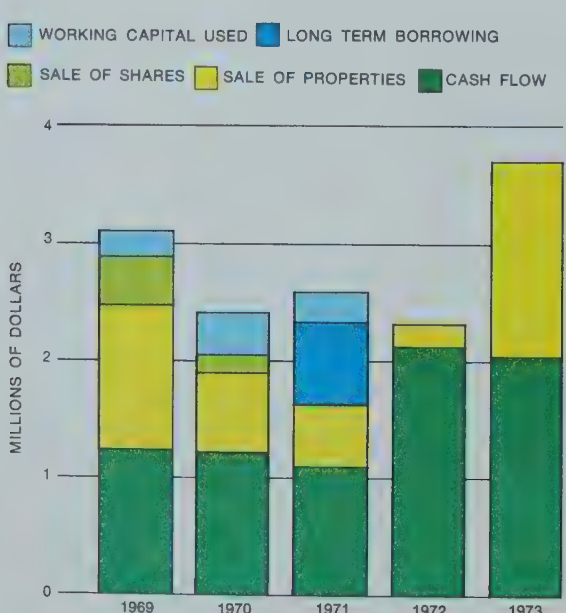
Consolidated Statement of Source and Disposition of Funds

Year ended April 30, 1973

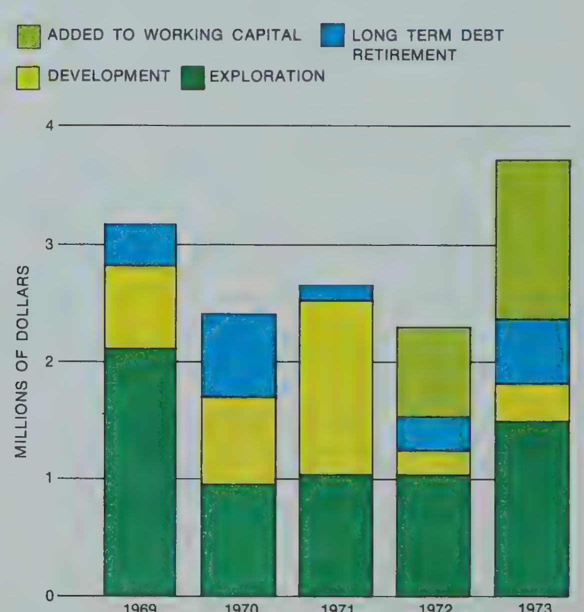
	1973	1972
SOURCE OF FUNDS:		
Cash flow from operations (net earnings before provisions, dry holes and abandoned properties and extraordinary items)	$ 2,045,000	$ 2,108,000
Proceeds from sale of properties	1,671,000	165,000
TOTAL FUNDS AVAILABLE	$ 3,716,000	$ 2,273,000
DISPOSITION OF FUNDS:		
Exploration:		
Land acquisition and exploration surveys	$ 1,038,000	$ 375,000
Increase (Decrease) in work obligation deposits	(17,000)	151,000
Wildcat and stepout drilling	506,000	489,000
Development and other expenditures:		
Drilling and equipment of wells	60,000	148,000
Gas gathering systems, plants and miscellaneous, net	234,000	99,000
FUNDS INVESTED IN THE COMPANIES	1,821,000	1,262,000
Reduction of long-term bank loans	515,000	320,000
TOTAL FUNDS USED	2,336,000	1,582,000
Unused funds added to working capital	1,380,000	691,000
TOTAL FUNDS ACCOUNTED FOR	$ 3,716,000	$ 2,273,000

See accompanying notes

SOURCE OF FUNDS



DISPOSITION OF FUNDS



Notes to Consolidated Financial Statements

April 30, 1973

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of all of the company's subsidiaries.

On May 1, 1972 the Canadian subsidiaries (both of which were wholly-owned) were wound up and the assets, operations and liabilities were transferred to the parent company.

Costs of oil and gas rights and exploration costs are capitalized when acquired. When undeveloped rights and costs are proven to be productive the accumulated cost is transferred to the producing oil and gas account and charged to earnings by an annual provision for depletion calculated on an area basis on the unit of production method based on the estimated recoverable oil and gas reserves. When such rights and costs are surrendered in an area the accumulated costs are charged against income. All costs of drilling wells are initially capitalized. If, on completion, a well is not capable of commercial production, its cost is immediately written off. The costs of successful wells are depleted on the unit of production method in the same manner as the cost of developed oil and gas rights.

Lease and well equipment, gas plants and pipelines are being depreciated on the unit of production method; other assets are depreciated on their estimated useful lives.

In settlement of advances, the company has received from a former subsidiary, Bluewater Oil & Gas Limited, a 5% convertible floating charge debenture in the amount of $300,000, due in varying amounts from 1975 to 1979 which is included in the accompanying balance sheet under the heading 'refundable deposits and investments' at the cost of $159,000. This debenture may be converted into 500,000 common shares of Bluewater Oil & Gas Limited on or before March 1, 1974. At April 30, 1973, the market value of these shares of Bluewater Oil & Gas Limited was $850,000. Owing to the number of shares involved, this is not necessarily indicative of the value of the shares that the company would acquire if it exercised its conversion privilege.

2. CAPITAL STOCK:

The company has reserved 113,000 shares of its capital stock for stock options to employees as follows:

No. of Shares	Option Price	Date First Exercisable	Expiry Date
13,000	$7.15	February 1, 1969	May 31, 1973
5,000	4.50	September 10, 1972	December 10, 1976
43,000	3.50	June 19, 1973	September 19, 1977
3,000	4.15	April 2, 1974	July 2, 1978
49,000	Authorized to be granted by the President until June 1, 1976 at the market price per share on the date of the grant.		
113,000			

All options are exercisable one fifth each year on a cumulative basis.

3. REMUNERATION PAID TO DIRECTORS AND SENIOR OFFICERS:

Remuneration paid during the year to directors and senior officers amounted to $150,000 (1972 – $142,000).

4. INCOME TAXES:

For income tax purposes the company is entitled to claim tax depreciation and drilling and exploration costs in excess of the related depreciation and depletion provisions and abandonments charged against earnings.

The company provides for deferred income taxes on timing differences between depreciation charged against earnings and tax depreciation claimed. It follows the general practice in the oil and gas industry and does not provide for income taxes deferred as a result of amounts claimed

for drilling and exploration costs in excess of depletion and abandonment charges. If the tax allocation basis had been followed for all timing differences between taxable income and reported income, additional deferred income taxes of $164,000 ($240,000 in 1972) would have been provided and net income for the year would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately $3,002,000 at April 30, 1973. At April 30, 1973 expenditures remain to be carried forward and applied against future taxable income as follows:

Drilling and exploration costs	$ None
Tax depreciation	$2,600,000 (subject to maximum annual claims in accordance with the Income Tax Act)

5. EXTRAORDINARY ITEMS:

On May 1, 1972, Canex Gas Ltd., a wholly-owned subsidiary, transferred all its assets to the company and took action to surrender its charter. Its assets included unamortized exploration and preproduction expenditures in the amount of $1,549,000 which were being amortized on a unit of production basis. As these were unamortized deferred expenditures of the former subsidiary, they were written off upon liquidation.

In 1967 the company sold an interest in certain non-producing properties for $6,000,000 of which $4,000,000 was received in instalments from 1967 to 1971. Under the terms of the agreement the remaining $2,000,000 was receivable on or before December 31, 1972, subject to reduction by the amount spent by the purchaser on the company's behalf, in exploring the joint properties. In December, 1972, the company received the balance due under the agreement which resulted in a gain on sale of property of $1,595,000.

6. EARNINGS PER SHARE:

Earnings per share are calculated using the weighted average number of shares outstanding during the respective fiscal years. Fully diluted earnings per share are not presented as there would be no material change.

Auditors' Report

PEAT, MARWICK, MITCHELL & CO.
CHARTERED ACCOUNTANTS

309 EIGHTH AVENUE S. W.
CALGARY, ALBERTA

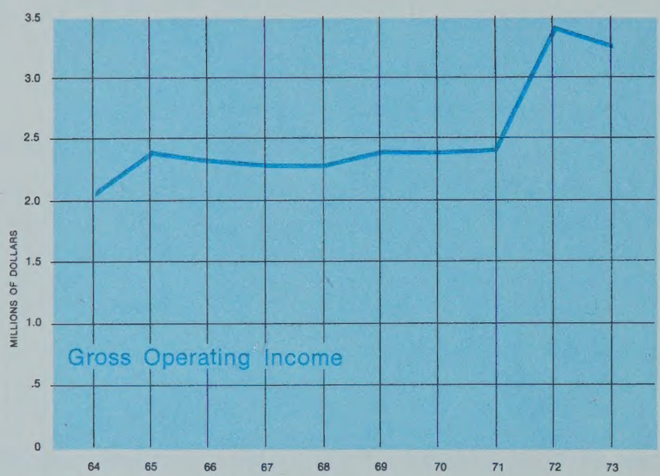
We have examined the consolidated balance sheet of Canadian Export Gas & Oil Ltd. and subsidiaries as at April 30, 1973 and the consolidated statements of earnings, retained earnings and source and disposition of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

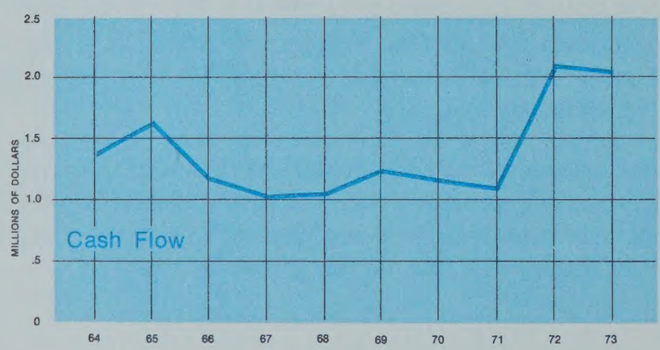
In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries as at April 30, 1973 and the results of their operations and the source and disposition of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

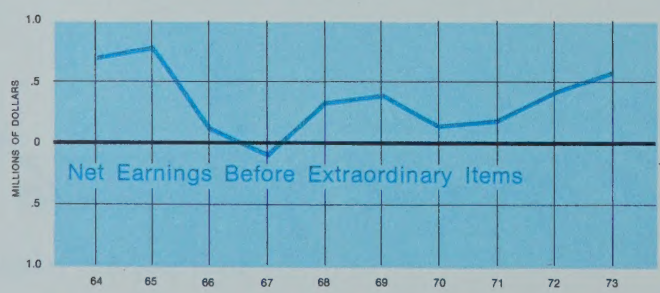
Peat, Marwick, Mitchell & Co
Chartered Accountants

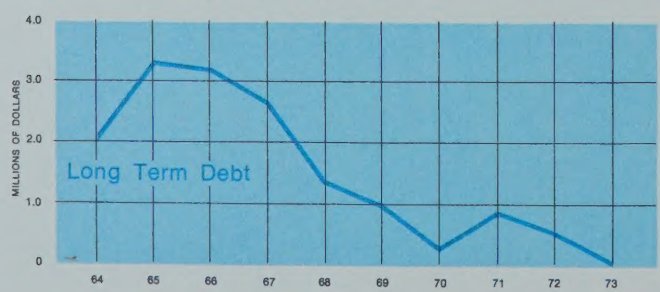
Calgary, Alberta
May 30, 1973

Ten Year Statistical Summary 1964/73









PRODUCTION:	
Oil—Annual	Barrels
Daily Average	Barrels
Gas—Annual	Billion Cubic Feet
Daily Average	Million Cubic Feet
Sulphur—Annual	Long Tons
Daily Average	Long Tons
EARNINGS:	
Gross operating income less royalties paid	$
Production expenses	$
Administrative and general expenses	$
Share transfer and other shareholder expenses	$
Acreage rentals on non-producing properties	$
Interest and miscellaneous, net	$
	$
Cash flow from operations	$
Dry holes and abandoned properties	$
Other non-cash charges or (income) net	$
	$
Earnings before provisions	$
Depletion and depreciation	$
Net earnings (loss) before income taxes	$
Income taxes, deferred	$
Net earnings (loss) before extraordinary items	$
Extraordinary items—gain or (loss) net	$
Net earnings	$
CAPITAL STRUCTURE:	
Number of shares outstanding	
Shareholders equity	$
Funded debt	$
Bank and other loans	$
Deferred income taxes	$
(Working capital) or deficiency	$
Total capital employed	$
CAPITAL INVESTMENT:	
Fixed assets, net—beginning of year	$
Exploration expenditures	$
Development expenditures	$
(Abandonments, provisions and adjustments, net)	$
Fixed assets, net—end of year	$
Deferred charges, unamortized	$
Other non-current assets	$
Total capital invested	$
SIGNIFICANT RATIOS:	
Net earnings to gross earnings	%
Cash flow to gross earnings	%
Operating expenses to gross earnings	%
Net earnings return on capital invested	%
Cash flow per share	¢
Net earnings before extraordinary items per share	¢
Net earnings per share	¢
WELLS DRILLED—GROSS (NET):	
Exploratory —Oil	
Gas	
Dry	
Development—Oil	
Gas	
Dry	
Total wells drilled	
Total footage drilled	
LAND HOLDINGS:	
Canadian—Gross acreage	
Net acreage	
Foreign —Gross acreage	
Net acreage	
OWNERS AND EMPLOYEES:	
Number of shareholders	
Number of employees	

1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
591,184	569,483	480,268	486,192	440,729	443,029	425,690	403,883	414,111	382,515
1,620	1,560	1,316	1,332	1,207	1,214	1,166	1,107	1,135	1,048
8.507	9.670	6.804	6.779	6.946	6.562	6.867	7.945	8.710	7.466
23	26	19	19	19	18	19	22	24	20
17,539	20,616	5,466	3,855	2,992	—	—	—	—	—
48	56	15	11	8	—	—	—	—	—
3,314,000	3,496,000	2,477,000	2,419,000	2,420,000	2,290,000	2,259,000	2,337,000	2,397,000	2,102,000
722,000	711,000	679,000	582,000	540,000	538,000	498,000	518,000	438,000	401,000
373,000	342,000	297,000	278,000	253,000	281,000	264,000	224,000	102,000	103,000
65,000	70,000	90,000	98,000	73,000	110,000	124,000	74,000	33,000	29,000
148,000	206,000	249,000	186,000	221,000	190,000	175,000	216,000	124,000	45,000
(39,000)	59,000	61,000	94,000	89,000	147,000	180,000	133,000	112,000	129,000
1,269,000	1,388,000	1,376,000	1,238,000	1,176,000	1,266,000	1,241,000	1,165,000	809,000	707,000
2,045,000	2,108,000	1,101,000	1,181,000	1,244,000	1,024,000	1,018,000	1,172,000	1,588,000	1,395,000
693,000	964,000	398,000	469,000	317,000	157,000	515,000	498,000	256,000	220,000
—	—	8,000	10,000	10,000	10,000	10,000	10,000	(12,000)	(5,000)
693,000	964,000	406,000	479,000	327,000	167,000	525,000	508,000	244,000	215,000
1,352,000	1,144,000	695,000	702,000	917,000	857,000	493,000	664,000	1,344,000	1,180,000
642,000	720,000	492,000	523,000	521,000	557,000	591,000	638,000	526,000	502,000
710,000	424,000	203,000	179,000	396,000	300,000	(98,000)	26,000	818,000	678,000
111,000	—	—	—	—	—	—	—	—	—
599,000	424,000	203,000	179,000	396,000	300,000	(98,000)	26,000	818,000	678,000
46,000	162,000	218,000	196,000	—	—	3,592,000	—	—	542,000
645,000	586,000	421,000	375,000	396,000	300,000	3,494,000	26,000	818,000	1,220,000
8,168,577	8,168,577	8,168,577	8,166,677	8,141,944	8,059,944	7,919,769	7,828,394	7,828,394	7,828,394
14,942,000	14,297,000	13,711,000	13,284,000	12,807,000	11,694,000	10,976,000	7,250,000	7,281,000	6,464,000
—	—	—	111,000	453,000	707,000	1,033,000	1,284,000	1,535,000	1,784,000
—	515,000	835,000	142,000	498,000	580,000	1,661,000	1,768,000	1,667,000	226,000
111,000	—	—	—	—	—	—	—	—	—
(1,896,000)	(516,000)	176,000	(118,000)	(535,000)	(765,000)	(1,233,000)	135,000	196,000	28,000
13,157,000	14,296,000	14,722,000	13,419,000	13,223,000	12,216,000	12,437,000	10,437,000	10,679,000	8,502,000
12,280,000	12,832,000	11,496,000	10,624,000	8,922,000	8,112,000	8,500,000	8,185,000	6,266,000	5,935,000
1,527,000	1,015,000	1,015,000	993,000	2,096,000	1,009,000	515,000	692,000	2,296,000	571,000
294,000	247,000	1,529,000	844,000	741,000	494,000	654,000	569,000	673,000	552,000
(1,394,000)	(1,814,000)	(1,208,000)	(965,000)	(1,135,000)	(693,000)	(1,557,000)	(946,000)	(1,050,000)	(792,000)
12,707,000	12,280,000	12,832,000	11,496,000	10,624,000	8,922,000	8,112,000	8,500,000	8,185,000	6,266,000
—	1,549,000	1,574,000	1,608,000	1,649,000	1,690,000	1,729,000	1,768,000	1,812,000	1,861,000
450,000	467,000	316,000	315,000	950,000	1,604,000	2,596,000	169,000	682,000	375,000
13,157,000	14,296,000	14,722,000	13,419,000	13,223,000	12,216,000	12,437,000	10,437,000	10,679,000	8,502,000
18	12	8	7	16	13	—	1	34	32
62	60	44	49	51	45	45	50	66	66
33	30	39	36	33	36	34	32	23	24
5	3	1	1	3	3	—	—	8	8
25	26	14	14	15	13	13	15	20	18
7	5	2	2	5	4	—	—	10	9
8	7	5	5	5	4	44	—	10	16
2 (0.4)	1 (0.3)	— (—)	2 (0.2)	2 (0.5)	— (—)	3 (1.0)	3 (1.5)	4 (1.8)	2 (0.7)
3 (0.8)	5 (2.2)	1 (0.1)	1 (0.1)	3 (0.1)	4 (0.8)	1 (0.3)	1 (0.5)	— (—)	— (—)
19 (4.9)	20 (5.1)	9 (0.9)	11 (1.1)	12 (2.9)	6 (—)	14 (2.5)	12 (4.8)	7 (3.2)	15 (3.9)
— (—)	1 (0.5)	3 (0.6)	2 (0.7)	1 (0.3)	2 (0.7)	6 (2.0)	9 (4.1)	10 (3.8)	2 (0.7)
— (—)	— (—)	2 (0.3)	4 (0.5)	14 (9.2)	3 (0.8)	3 (2.5)	2 (2.0)	— (—)	— (—)
— (—)	1 (0.2)	1 (0.2)	1 (—)	1 (1.0)	— (—)	1 (0.5)	3 (1.2)	1 (0.3)	1 (0.2)
24 (6.1)	28 (8.3)	16 (2.1)	21 (2.6)	33(14.0)	15 (2.3)	28 (8.8)	30(14.1)	22 (9.1)	20 (5.5)
134,000′	128,000′	129,000′	178,000′	177,000′	75,000′	126,000′	129,000′	123,000′	100,000′
5,323,000	5,525,000	6,006,000	6,530,000	5,365,000	2,159,000	2,221,000	2,698,000	2,832,000	893,000
2,494,000	2,486,000	2,638,000	2,728,000	3,264,000	703,000	1,105,000	2,042,000	2,227,000	307,000
7,026,000	285,000	—	—	—	—	—	—	—	—
1,702,000	29,000	—	—	—	—	—	—	—	—
12,136	12,117	12,584	10,433	9,134	8,992	8,586	7,790	5,022	5,250
31	31	31	32	33	33	33	37	38	32

427
424
3

823
5,9,9
224